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## OLR Bill Analysis

**SB 75 (File 24, as amended by Senate “A” and “B”)\***

### ***AN ACT CONCERNING A “CONNECTICUT-MADE” MARKETING CAMPAIGN***

#### **SUMMARY:**

This bill allows more participants in an aircraft industry joint venture to claim the sales tax exemption for services they provide to each other. It also extends, from 30 to 40 years, the time period during which participants in such ventures may claim the exemption.

The bill specifies how manufacturers depositing and withdrawing funds in a tax-deferred manufacturing reinvestment account must determine the taxes they owe on these funds. The law allows small manufacturers to create these accounts to purchase machines and equipment; build or expand facilities; or train, develop, or expand their workforce. The bill specifies that the capital purchases must be for machines used or facilities located in Connecticut and employee training conducted here. The bill allows interest income to increase the account above the statutory limits.

The bill requires the Department of Economic and Community Development (DECD) to establish a program for recognizing, upon request, cultural, historical, and ethnic events.

Lastly, the bill imposes a notice requirement on projects requiring Federal Energy Regulatory Commission approval (e.g., dams). Under the bill, a project’s owner must notify anyone who owns property within 3,000 feet of the project that the project owner will apply to the commission for approval.

\*Senate Amendment “A” eliminates the underlying bill, which required the DECD commissioner to establish a program promoting the products made in Connecticut, and adds the (1) changes to the sales tax exemption for aircraft-related joint ventures; (2) rules for

calculating taxes on deposits to and withdrawals from manufacturing reinvestment accounts; and (3) program for recognizing cultural, historical, and ethnic events.

\*Senate Amendment "B" adds the notice requirement regarding projects requiring Federal Energy Regulatory Commission approval.

EFFECTIVE DATE: October 1, 2012

## **SALES TAX EXEMPTION FOR JOINT VENTURES**

The bill exempts more participants in an aircraft industry joint venture from paying the sales tax for services they receive from the venture's other participants. The law exempts a participant from paying the tax if it owns at least 25% of the venture. If the participant owns stock in another participant's business, it cannot count that business' share of the venture as part of its ownership share. The bill allows the participant to do so.

## **CALCULATING TAX LIABILITY FOR MANUFACTURING REINVESTMENT ACCOUNT DEPOSITS AND WITHDRAWALS**

### ***Eligible Uses of Deposited Funds***

The bill specifies the rules manufacturers must use to determine the corporate business or personal income tax they owe when depositing or withdrawing money in a manufacturing reinvestment account. Small manufacturers (50 or fewer employees) may establish these accounts and defer paying taxes on the money they deposit in them until they withdraw funds for a range of eligible uses, including purchasing machinery and equipment and developing or expanding facilities. Under current law, withdrawals are taxed at 3.5%, regardless of whether the manufacturer is organized as a corporation, partnership, or other type of business entity.

As discussed below, the bill changes how withdrawals are taxed, but also specifies that reduced rate applies to withdrawals for machinery, equipment, and facility purchases only if the (1) machines and equipment will be used in Connecticut, (2) the facility is to be constructed or expanded here, and (3) the workforce training,

development, and expansion will occur in Connecticut.

Current law allows manufacturers to establish the funds for five years, after which they must pay taxes on the balance at the applicable rate. The bill specifies that the five-year period starts when the account is established.

### ***Tax Deferrals on Deposits***

Current law allows manufacturers to defer paying taxes on funds they deposit in a manufacturing reinvestment account, but limits the total amount of funds they can deposit each year to \$50,000. The bill allows them to deposit only funds they cannot deduct from federal taxes.

### ***Determining Tax Liability on Withdrawals***

The bill specifies how manufacturers must determine the state taxes owed on amounts withdrawn from an account. It does this by specifying how they must treat a withdrawal when computing income for the current or preceeding tax year. The rules apply only to those deposits that (1) are not included in gross income for federal taxes and (2) were deducted from gross income for state taxes when the funds were deposited in the account.

The rules vary depending on the reasons for a withdrawal.

1. Half of the funds withdrawn for purchasing machinery, equipment, or facilities projects can be excluded when calculating gross income for the applicable tax year.
2. All of the funds withdrawn for an ineligible use must be added to the manufacturer's gross income for the applicable tax year.
3. All of the funds returned to a manufacturer after the five-year period expires must also be added to the manufacturer's gross income for the applicable tax year.

In each case, the withdrawals are taxed at the applicable tax rate.

### ***Interest Accrual***

The bill allows manufacturers to accumulate interest income on the funds they deposit in a manufacturing reinvestment account. By law, they can deposit up to \$50,000 per year or 100% of their domestic gross receipts, whichever is less, for up to five years. Under current law, manufacturers must pay taxes on interest income that exceeds the statutory limit. The bill eliminates this requirement, thus allowing them to accumulate interest above the statutory limit without paying taxes on the increment.

### **PROMOTING CULTURAL, HISTORICAL, AND ETHNIC EVENTS**

The bill requires DECD to establish, by July 1, 2012, a program recognizing cultural, historical, and ethnic events upon request. The period for recognizing an event may last from one day to two weeks per year. DECD must develop guidelines for recognizing events that, at a minimum, include procedures for requesting recognition, a requirement that requests be submitted within 120 days before the event, and a mechanism for including the event in DECD's tourism calendar.

### **COMMITTEE ACTION**

#### Commerce Committee

Joint Favorable

Yea 16 Nay 0 (03/01/2012)

#### Appropriations Committee

Joint Favorable

Yea 49 Nay 0 (04/13/2012)

#### Finance, Revenue and Bonding Committee

Joint Favorable

Yea 51 Nay 0 (04/26/2012)

#### Planning and Development Committee

Joint Favorable

Yea 16 Nay 3 (05/04/2012)

